

**FCC Form 481 - Carrier Annual Reporting**  
**Data Collection Form**

 FCC Form 481  
 OMB Control No. 3050-0986/OMB Control No. 3060-0813  
 July 2013

<010>	Study Area Code	250286
<015>	Study Area Name	NATIONAL OF ALABAMA
<020>	Program Year	2016
<030>	Contact Name: Person USAC should contact with questions about this data	Veronica Martin
<035>	Contact Telephone Number: Number of the person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	FilingsRAD@tec.com

<b>ANNUAL REPORTING FOR ALL CARRIERS</b>	<b>54.313 Completion Required</b>	<b>54.422 Completion Required</b>
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		(check box when complete)	
<100>	Service Quality Improvement Reporting (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<200>	Outage Reporting (voice) (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<210>	<input checked="" type="checkbox"/> <-- check box if no outages to report	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<300>	Unfulfilled Service Requests (voice) 0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<310>	Detail on Attempts (voice) (attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<320>	Unfulfilled Service Requests (broadband) 3	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<330>	Detail on Attempts (broadband) 250286-AL-330.pdf (attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<400>	Number of Complaints per 1,000 customers (voice)		
<410>	Fixed 0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<420>	Mobile 0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<430>	Number of Complaints per 1,000 customers (broadband)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<440>	Fixed 0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<450>	Mobile 0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<500>	Service Quality Standards & Consumer Protection Rules Compliance (check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<510>	250286-AL-510.pdf (attached descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<600>	Functionality in Emergency Situations (check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<610>	250286-AL-610.pdf (attached descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<700>	Company Price Offerings (voice) (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<710>	Company Price Offerings (broadband) (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<800>	Operating Companies and Affiliates (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<900>	Tribal Land Offerings (Y/N)? <input type="radio"/> Yes <input checked="" type="radio"/> No (if yes, complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1000>	Voice Services Rate Comparability Certification Yes	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1010>	250286-AL-1010.pdf (attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1100>	Certify whether terrestrial backhaul options exist (Yes or No) <input checked="" type="radio"/> Yes <input type="radio"/> No (if not, check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1110>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1200>	Terms and Condition for Lifeline Customers (complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet**

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers	
<2000>	(check to indicate certification)
<2005>	(complete attached worksheet)
Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet	
<3000>	(check to indicate certification)
<3005>	(complete attached worksheet)

**(100) Service Quality Improvement Reporting  
Data Collection Form**

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July 2013

<010>	Study Area Code	250286
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<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@ac.com
<110>	Has your company received its ETC certification from the FCC? If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC?	(yes / no ) <input checked="" type="radio"/> (yes / no ) <input type="radio"/>
<111>		(yes / no ) <input type="radio"/> (yes / no ) <input type="radio"/>

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

250286-AL-112.pdf

Name of Attached Document

Please select the appropriate responses below (Yes, No, Not Applicable) to confirm that the attached document(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to §54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

<113>	Maps detailing progress towards meeting plan targets	Yes
<114>	Report how much universal service (USF) support was received	Yes
<115>	How much (USF) was used to improve service quality and how support was used to improve service quality	Yes
<116>	How much (USF) was used to improve service coverage and how support was used to improve service coverage	Yes
<117>	How much (USF) was used to improve service capacity and how support was used to improve service capacity	Yes
<118>	Provide an explanation of network improvement targets not met in the prior calendar year.	Yes



(700) Price Offerings including Voice Rate Data  
Data Collection Form

<010>	Study Area Code	250286
<015>	Study Area Name	NATIONAL OF ALABAMA
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@ec.com

1/1/2015	
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<701> Residential Local Service Charge Effective Date

<702> Single State-wide Residential Local Service Charge

[illegible]



(710) Broadband Price Offerings Data Collection Form			FCC Form 481 OMB Control No. 3060-0986 / OMB Control No. 3060-0819 July 2013		
<010>	Study Area Code	250286			
<015>	Study Area Name	NATIONAL OF ALABAMA			
<020>	Program Year	2016			
<030>	Contact Name - Person USAC should contact regarding this data				
<035>	Contact Telephone Number - Number of person identified in data line <030>	Veronica Martin			
		6013549070 ext.			
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@foc.com			

[illegible]

[illegible]

(900) Tribal Lands Reporting  
Data Collection Form

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	250286
<015>	Study Area Name	NATIONAL OF ALABAMA
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FillingRAD@ec.com

<910>	Tribal Land(s) on which ETC Serves
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<920>	Tribal Government Engagement Obligation
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Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached document(s), on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select Yes or No or Not Applicable

**(1100) No Terrestrial Backhaul Reporting  
Data Collection Form**

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<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	Fillingad@ec.com

<1120> Please confirm whether terrestrial backhaul options exist within the supported area pursuant to § 54.313(g) (Yes, No).

<1130> Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).



**(1200) Terms and Condition for Lifeline Customers****Lifeline****Data Collection Form**

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July 2013

<010>	Study Area Code	250286
<015>	Study Area Name	NATIONAL OF ALABAMA
<020>	Program Year	2015
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRADatcc.com

**<1210> Terms & Conditions of Voice Telephony Lifeline Plans****<1220> Link to Public Website**HTTP <http://www.tcc.com/terms>

Name of Attached Document

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

<1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☒

<1222> Details on the number of minutes provided as part of the plan, ☒

<1223> Additional charges for toll calls, and rates for each such plan. ☒

<b>(2000) Price Cap Carrier Additional Documentation</b>		FCC Form 481
<b>Data Collection Form</b>		OMB Control No. 3060-0086/OMB Control No. 3060-0819
<b>Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers</b>		July 2013
<010> Study Area Code	250286	
<015> Study Area Name	NATIONAL OF ALABAMA	
<020> Program Year	2016	
<030> Contact Name - Person USAC should contact regarding this data	VERONICA MARTIN	
<035> Contact Telephone Number - Number of person identified in data line <030>	6013333070 FAX	
<039> Contact Email Address - Email Address of person identified in data line <030>	FILLINGSMA@verec.com	

Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

- Incremental Connect America Phase I reporting**
- <2010> 2nd Year Certification (47 CFR § 54.313(b)(1)(i))
- <2011a> 3rd Year Certification (47 CFR § 54.313(b)(1)(ii))
- <2011b> Attachment (47 CFR § 54.313(b)(1)(ii))

**Price Cap Carrier Receiving Frozen Support Certification (47 CFR § 54.312(a))**

- <2012> 2013 Frozen Support Calculation (47 CFR § 54.313(c)(1))
- <2013> 2014 Frozen Support Calculation (47 CFR § 54.313(c)(2))
- <2014> 2015 Frozen Support Calculation (47 CFR § 54.313(c)(3))
- <2015> 2016 and future Frozen Support Calculation (47 CFR § 54.313(c)(4))

**Price Cap Carrier Connect America ICC Support (47 CFR § 54.313(d))**

- <2016> Certification Support Used to Build Broadband
- <2017> Connect America Phase II Reporting (47 CFR § 54.313(e))
- <2018> 3rd year Broadband Service Certification
- <2019> 5th year Broadband Service Certification
- <2019> Interim Progress Certification

<2020> Please check the box to confirm that the attached document(s), on line 2021, contains the required information pursuant to § 54.313 (e)(3)(iii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

- <2021> Interim Progress Community Anchor Institutions

Name of Attached Document(s) Listing Required Information

Name of Attached Document(s) Listing Required Information



(3000) Rate Of Return Carrier Additional Documentation  
Data Collection Form

FCC Form 481  
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July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	F111ndepa@flec.com

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3010) Progress Report on 5 Year Plan  
Milestone Certification (47 CFR § 54.313(f)(1)(i))

Name of Attached Document Listing Required Information

250286-AL-3010 .pdf

(3011) Please check this box to confirm that the attached document(s), on line 3012 contains the required information pursuant to § 54.313 (f)(1)(ii), the carrier shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

☒

(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(iii))

Name of Attached Document Listing Required Information

250286-AL-3012 .pdf

(3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2))

(3014) If yes, does your company file the RUS annual report

☒ ☐ ☐ ☐

Please check these boxes to confirm that the attached document(s), on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:

(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)

☒ ☒

(3016) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation

Name of Attached Document Listing Required Information

250286-AL-3017 .pdf

☐ ☐

(3018) If the response is no on line 3014, is your company audited?

If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains

(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications

☐ ☐

(3020) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

☐ ☐

(3021) Management letter and audit opinion issued by the independent certified public accountant that performed the company's financial audit

☐ ☐

If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3022) Copy of their financial statement which has been subject to review by an independent certified public accountant; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers,

☐ ☐

(3023) Underlying information subjected to a review by an independent certified public accountant

☐ ☐

(3024) Underlying information subjected to an officer certification.

☐ ☐

(3025) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

☐ ☐

(3026) Attach the worksheet listing required information

Name of Attached Document Listing Required Information

(3000) Rate Of Return Carrier Additional Documentation (Continued)  
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FCG Form 481  
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July 2013

<010>	Study Area Code	250286
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<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
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<039>	Contact Email Address - Email Address of person identified in data line <030>	Fillmore@detec.com

- Financial Data Summary
- (3027) Revenue
- (3028) Operating Expenses
- (3029) Net Income
- (3030) Telephone Plant In Service(TPIS)
- (3031) Total Assets
- (3032) Total Debt
- (3033) Total Equity
- (3034) Dividends



Certification - Reporting Carrier Data Collection Form	AFCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	250286
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<020> Program Year	2016
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<039> Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@tec.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	NATIONAL OF ALABAMA
Signature of Authorized Officer:	<i>James W. Garner</i> Date 6/30/15
Printed name of Authorized Officer:	James W. Garner
Title or position of Authorized Officer:	Vice President of Operations
Telephone number of Authorized Officer:	601-354-9070
Study Area Code of Reporting Carrier:	250286 Filing Due Date for this form: 07/01/2015
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	250286
<015> Study Area Name	NATIONAL OF ALABAMA
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<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@tec.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent: _____	
Name of Reporting Carrier: _____	
Signature of Authorized Officer: _____	Date: _____
Printed name of Authorized Officer: _____	
Title or position of Authorized Officer: _____	
Telephone number of Authorized Officer: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier: _____	
Name of Authorized Agent or Employee of Agent: _____	
Signature of Authorized Agent or Employee of Agent: _____	Date: _____
Printed name of Authorized Agent or Employee of Agent: _____	
Title or position of Authorized Agent or Employee of Agent: _____	
Telephone number of Authorized Agent or Employee of Agent: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

## Attachments



FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

250286

NATIONAL OF ALABAMA

2016

Veronica Martin

6013549070 ext.

[Filip@Panda.com](mailto:Filip@Panda.com)

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1/1/2015

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<a1>

[illegible]



(710) Broadband Price Offerings  
Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	250286
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<039>	Contact Email Address - Email Address of person identified in data line <030>	Fillingard@tec.com

[illegible]

FCC Form 481  
OMB Control No: 3060-0986/OMB Control No. 3060-0819  
July 2013

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[illegible]

**CONFIDENTIAL**  
**NOT FOR PUBLIC INSPECTION**

**Five-Year Network Improvement Plan and Progress Report**  
**For National Telephone of Alabama, Inc.**

In its *USF/ICC Transformation Order* and subsequent Orders, the Federal Communications Commission (“FCC” or “Commission”) required Eligible Telecommunications Carriers (“ETCs”) to submit a five-year build-out plan in a manner consistent with Section 54.202(a)(1)(ii) of the Commission’s Rules by July 1, 2014 and to submit annual progress reports thereafter.<sup>1</sup> In its *March 5, 2013 Order*, the FCC specified that for rate-of-return carriers, the five-year plans “should describe the carrier’s network improvement plan, which should provide greater visibility into current plans to extend broadband service to unserved locations in rate-of-return service territories.”<sup>2</sup> National Telephone of Alabama, Inc. (“National” or the “Company”) is a rate-of-return carrier ETC and hereby submits its five-year network improvement plan as well as a progress report covering any progress made on the initial five-year network improvement plan submitted in 2014. Because the 2015 calendar year is still in progress, 2015 is included in its five-year plan, but extends the plan for an additional year, through 2020. Therefore, while National’s plan actually covers six calendar years, the five-year plan maintains a full five calendar years of forward-looking network improvement projects.

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<sup>1</sup> See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-61 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*) at Para. 587; *pets. for review denied, Direct Comm. Cedar Valley, et al v. FCC 11-161*, No. 11-9900 [www.ca10.uscourts.gov/opinions/11/11-9900.pdf](http://www.ca10.uscourts.gov/opinions/11/11-9900.pdf) (10th Cir. filed May 23, 2014); see also *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 12-147 (rel. Feb. 12, 2012) at Para. 5 (amending Section 54.313(a)(1) to clarify this requirement); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Third Order on Reconsideration, FCC 12-52 (rel. May 14, 2012) at Para. 10 (changing the filing deadline for the annual reports from April 1 to July 1); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 13-332 (rel. Mar. 5, 2013) (“*March 5, 2013 Order*”) at Para’s. 4, 6-9. Delaying Five-year Plan until July 1, 2014 see WC Docket No. 10-90, Order, DA 13-1115, Para. 8 (released May 16, 2013).

<sup>2</sup> *March 5, 2013 Order* at Para. 9 citing Section 54.202(a)(1)(ii).



**I. The Company's Five-Year Network Improvement Plan**

When the Commission adopted its five-year plan requirements for FCC-designated ETCs in its *2005 ETC Order*, it set forth the following criteria as to how the ETC is to describe with “specificity” the proposed improvements or upgrades to the ETC’s network throughout its service area:

(1) how signal quality, coverage, or capacity will improve due to the receipt of high-cost support throughout the area for which the ETC seeks designation; (2) the projected start date and completion date for each improvement and the estimated amount of investment for each project that is funded by high-cost support; (3) the specific geographic areas where the improvements will be made; and (4) the estimated population that will be served as a result of the improvements.<sup>3</sup>

In that order, the FCC clarified that service quality improvements in the five-year plan “do not necessarily require additional construction of network facilities.”<sup>4</sup> Accordingly, the improvements listed in the plan may be projects related to the expansion of the network (one or multiple services), projects related to updating technology to accommodate new services or higher bandwidth or maintenance projects, such as to reduce trouble reports or replace outdated equipment. Additionally, in some cases, the projects may be ones that improve or upgrade the entire network rather than discrete areas within a study area or they may be ones that are ongoing projects that have no specific start and completion dates.

The instructions to the Form 481 state “[r]ecipients may describe where improvements are expected to occur by wire center or census block, as appropriate. To the extent no

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<sup>3</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) (“*2005 ETC Order*”).

<sup>4</sup> *Id.*

improvements are planned in specific areas, the five-year plan should so indicate.”<sup>5</sup> The instructions also require that in subsequent annual progress reports, which must include the total amount of universal support received, this information must be provided “broken out separately by the amount spent on capital expenses and the amount spent on operating expenses.”<sup>6</sup> Accordingly, the Company’s five-year plan separately provides both capital expenditures and operating expenses.

**A. The Company’s Major Network Improvement Projects**

Based upon this framework, Appendix A updates the Company’s five-year plan submitted in 2014 and reflects National’s major network improvement projects for the six calendar years 2015 through 2020<sup>7</sup> along with the start and completion dates, capital costs, areas and population associated with those projects.

**B. How These Projects Will Improve the Network**

In 2015-2020 National planned projects to expand its fiber network in order to increase speed and reliability of both broadband and traditional telephone services within its network. In 2015 “National” upgraded to a Meta switch to improve reliability throughout the network.

Ongoing projects include transport upgrades that will update antiquated technology which will soon be unsupported throughout the network and help reduce service issues. Various other upgrades during this time include new computers, new vehicles, and other work equipment; these will be used to replace outdated equipment and address maintenance issues.

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<sup>5</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112.

<sup>6</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112.

<sup>7</sup> Based upon informal discussions with the FCC, the initial five-year network improvement plan covered calendar years 2015 through 2019.

National requires all batteries be tested regularly to insure reliability of the network under emergency situations, which means regular battery replacement throughout the five years. Routine outside plant upgrade projects will be regarded as the normal course of business for maintaining plant facilities and the network. Finally there will be various broadband upgrades and central office power upgrades; these projects will help to expand the network and update technology to allow higher broadband internet bandwidth speeds. See Appendix A for a full breakdown including cost of the various projects.

**C. Estimated Capital Expenditures and Operating Expenses**

The first table in Appendix B included herein specifies the capital expenditures (projects) in Appendix A, by Part 32 account, along with the respective year in which the expenditures are expected to occur. In the second table of Appendix B, the projected operating expenses are provided, including depreciation expense for both embedded plant investment and for capital expenditures, which begins when the capital expenditures are projected to be placed into service.

**II. The Company's Progress Report on its Five-Year Network Improvement Plan**

National is currently in the process of upgrading to a Meta switch. Comprehensive progress made on network improvements in 2015 will be reported by National Telephone of Alabama, Inc. in its 2016 ETC Annual Report. National Telephone of Alabama, Inc. hereby provides the following required elements of its progress report to satisfy Form 481 reporting obligations.



**A. The Amount of Universal Service Support Received by the Company**

For the 2014 calendar year, which was outside of the scope of the Company's initial five-year network improvement plan, National Telephone of Alabama, Inc. received a total of \$652,880 in high cost universal service support ("USF") through the following mechanisms:

- [REDACTED] for Interstate Common Line Support ("ICLS");
- [REDACTED] for High Cost Loop Support ("HCLS");
- [REDACTED] for ICC CAF Support;

**B. How National Telephone of Alabama, Inc. Has Used USF to Improve Service Quality, Coverage and Capacity**

Section 254(e) of the Communications Act of 1934, as amended requires ETCs to use Universal Service support ("USF") "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."<sup>8</sup> Pursuant to Section 54.314 of the FCC's rules, in order for state-designated ETCs to receive USF for the coming year, states must annually file certifications by October 1 stating that all federal high-cost support provided to such carriers within the state "was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."<sup>9</sup> ETCs not designated by a state must file similar certifications with the FCC.<sup>10</sup>

In its *USF/ICC Transformation Order*, the FCC clarified that prior to making the Section 254(e) certifications, states should conduct a "rigorous examination of the factual

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<sup>8</sup> 47 U.S.C. § 254(e).

<sup>9</sup> 47 C.F.R. § 54.314(a).

<sup>10</sup> 47 C.F.R. § 54.314(b).

information” contained in the annual Section 54.313 reports, of which the five-year network improvement plan and annual progress reports are a part, in determining whether they can certify that carriers’ support has been used and will be used only for the purpose for which the support was intended.<sup>11</sup> The FCC said that it would also use the reports to verify certifications filed by ETCs that are not state-designated.<sup>12</sup> In this context, the Commission stated, “[i]n light of the public interest obligations we adopt in this Order, a key component of this [Section 254(e)] certification will now be that support is being used to maintain and extend modern networks capable of providing voice and broadband service.”<sup>13</sup>

Essentially, under the existing rules and processes, the federal USF received by the Company and other incumbent rural telephone companies are, in fact, an integral part of the recovery of expenditures of rural incumbent local exchange carriers incurred in the provision, maintenance and upgrading of their provision of facilities and services for which the USF is intended. “National” depends upon its receipt and utilization of federal universal service support to provide rural telephone customers with affordable and quality voice and broadband services.

Accordingly, given the critical role the network improvement plan as updated herein and the progress reports will have in the annual Section 254(e) certification process, National’s plan and progress reports demonstrate how the Company has used and will use USF not only for improvements and upgrades, but also for the provision and maintenance of the facilities and services to which the support was intended. Even though the FCC did not require the Company to include calendar year 2014 as part of the Company’s network improvement plan

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<sup>11</sup> See *USF/ICC Transformation Order* at Para. 612.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* (emphasis supplied).

and thus there is no information to report regarding progress during that year, the Company hereby certifies that during that year it used USF solely for which the support was intended.

**C. Maps Depicting the Company's Network Progress**

Attached to this Five-Year Network Improvement Plan as Appendix C is National's map depicting the extent of the Company's network within its service area and indicating specific geographic areas associated with certain projects listed above.

**D. Network Improvement Targets Not Met**

Because 2015 is the first year of the Company's network improvement plan, there is no previous year for which to report network improvement targets that have not been fulfilled. Due to the cost of upgrading to a Meta Switch and the increased reporting requirements National Telephone of Alabama, Inc. has been forced to push back some of the previously planned projects. The Company will report such information for calendar year 2015 as well as progress towards meeting its targets for that year in its progress report submitted in 2016.

Study Area Code  
 Study Area Name  
 Company Contact Name  
 Contact Telephone Number  
 Contact Email Address

250286

National Telephone of Alabama, Inc.  
 Lisa Wigington  
 (601) 354-9070  
[FilingsRAD@TEC.com](mailto:FilingsRAD@TEC.com)

APPENDIX A - PROJECT LIST FOR 2016-2020

Project	Start Date	Completion	Areas	Population(1)	Total Dollars	Notes from JSI Separations Contact & Company Discussion
Transport Upgrades	2016	2020	All Exchanges	7,914		Part 32 Account 2210 Both
Building Improvements	2016	2016	All Exchanges	7,914		2111 Both
New Computers	2016	2020	All Exchanges	7,914		2124 Both
New Vehicles	2016	2020	All Exchanges	7,914		2112 Both
Battery Replacement	2016	2020	All Exchanges	7,914		2232 Both
Test Equipment Upgrade	2016	2020	All Exchanges	7,914		5114 Both
Other Work Equipment	2016	2020	All Exchanges	7,914		2114 Both
Routine Outside Plant Upgrade Project	2016	2020	All Exchanges	7,914		2423 Both
Broadband Upgrade and Expansions	2016	2020	All Exchanges	7,914		2232 Broadband
Totals						



Study Area Code 250286  
 Study Area Name National Telephone of Alabama, Inc.  
 Company Contact Nam Lisa Wington  
 Contact Telephone Nur (601) 354-9070  
 Contact Email Address FilingsRAD@TEC.com

#### APPENDIX B: 5-Year Proposed Capital Expenditures and Operating Expenses

(1) Use the chart below to break out the regulated portion of the cost/expense on a per-year basis  
 Please note that the 5-Year Plan should include regulated plant/expenses only.

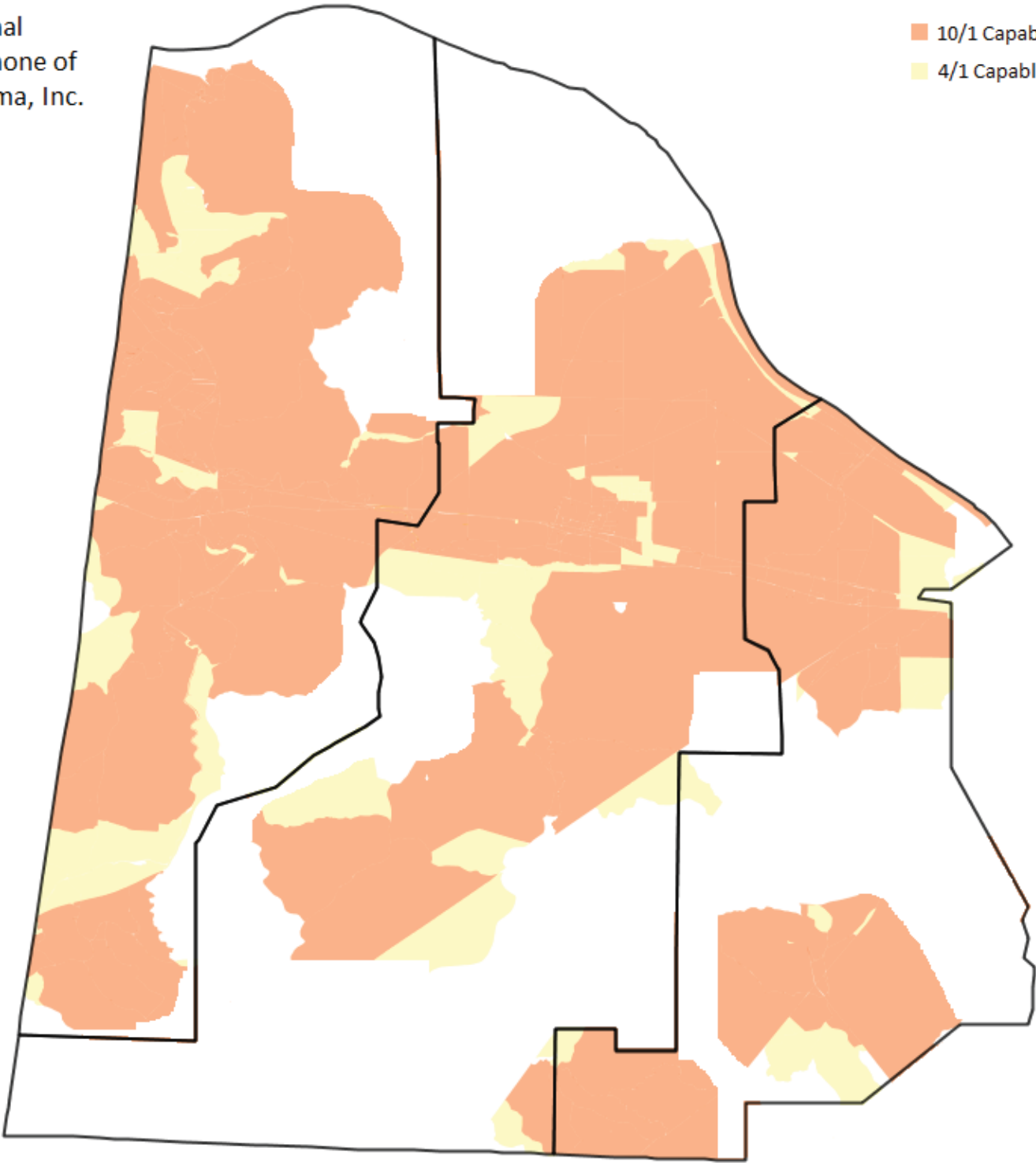
Regulated Capital Expenditure (CapEx) Projections						
Account	Description	2015	2016	2017	2018	Total Projected CapEx 2016-2020
2111 & 2121	Land & Building					
2112	Vehicles					
2122-2124	Support Assets					
2210	Switching Equipment					
2232	Circuit Equipment					
2410-2440	Cable & Wire Facilities					
1220	Materials & Supplies					
	Total Capital Expenditures					

Regulated Operating Expenditure (OpEx) Projections						
Account	Operating Expenses	2015	2016	2017	2018	Total Operating Expenses 2016-2020
6110-6120	General Support Maintenance					
6210	Switching Maintenance					
6230	COE Transmission Maintenance					
6410	Cable & Wire Facilities					
6530	Non-Specific (Testing, Plant Op., Engineering)					
6561-2110	General Support Depreciation					
6561-2210	Switching Depreciation					
6561-2230	Circuit Equip Depreciation					
6561-2410	Cable & Wire Depreciation					
6610-6620	Customer Operations					
6711-6720	Corporate Operations					
7240	Ad Valorem Expense					
	Total Operating Expenses					

APPENDIX C

National  
Telephone of  
Alabama, Inc.

- 10/1 Capable
- 4/1 Capable





**Determination of Reasonableness**

In its *March 5, 2013 Order*, the Commission stated, "We encourage rate-of-return carriers to explain in their five-year plans what criteria the carrier will use to determine whether a request for broadband is reasonable and how the carrier will decide which areas are feasible to extend terrestrial broadband service to, and which areas are not feasible to serve with terrestrial technologies, given current funding levels."<sup>15</sup> National Telephone of Alabama, Inc hereby responds to the Commission's invitation and provides the following: National Telephone of Alabama, Inc. maintains a broadband internet service request list. Once the threshold of seven requests in a given area is achieved a facilities and demographic study on the area will be generated to determine if the area meets the minimum density for a broadband aggregation device to be deployed.

**National Telephone of Alabama, Inc.'s demonstration of complying with applicable service quality standards and consumer protection rules:**

In establishing this certification in its *2005 ETC Order*,<sup>1</sup> the FCC found that an ETC must make “a specific commitment to objective measures to protect consumers.”<sup>2</sup> The Commission found that for wireless ETCs, compliance with CTIA’s Consumer Code for Wireless Service would satisfy this requirement” and that the sufficiency of other commitments would be considered on a case-by-case basis.<sup>3</sup> In this context, the FCC stated, “to the extent a wireline or wireless ETC applicant is subject to consumer protection obligations under state law, compliance with such laws may meet our requirement.”<sup>4</sup>

National Telephone of Alabama, Inc. (“Company”) hereby certifies that it is complying with applicable service quality standards and consumer protection rules. The Company is subject to consumer protection obligations under state law. These obligations include, but are not limited to, the following: (1) filing a Local Exchange Tariff in the form of a price list pursuant to the requirements of the Alabama Public Service Commission’s Rules and Regulations, Telephone Rules, Rule T-12, Filing of Telephone Tariffs and The Code of Alabama 1975 Section 37-1-81, which disclose rates, terms and conditions of service to customers; (2) adherence to state consumer protection requirements governing telephone providers which require adherence

<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) (“*2005 ETC Order*”).

<sup>2</sup> *Id.* at para. 28.

<sup>3</sup> *Id.* The FCC noted that under the CTIA Consumer Code, wireless carriers agree to: “(1) disclose rates and terms of service to customers; (2) make available maps showing where service is generally available; (3) provide contract terms to customers and confirm changes in service; (4) allow a trial period for new service; (5) provide specific disclosures in advertising; (6) separately identify carrier charges from taxes on billing statements; (7) provide customers the right to terminate service for changes to contract terms; (8) provide ready access to customer service; (9) promptly respond to consumer inquiries and complaints received from government agencies; and (10) abide by policies for protection of consumer privacy.” *Id.* at n. 71.

<sup>4</sup> *Id.* at n. 72.

to minimum service standards as identified in the Alabama Public Service Commission's Rules and Regulations, Telephone Rules, Rule T-21, protection against cramming and other deceptive practices as identified in Rule T-16(C)(11); (3) truth-in-billing requirements as identified in Rule T-16; and (4) CPNI, Red Flag Rules and other applicable federal and state requirements governing the protection of customers' privacy.

**National Telephone of Alabama, Inc.'s Ability to Function in Emergency Situations**

National Telephone of Alabama, Inc. hereby certifies that it is able to function in emergency situations as set forth in the Code of Federal Regulations; Title 47, Part 54, Subpart C, §54.202(a)(2)<sup>1</sup> and the Alabama Public Service Commission Rules and Regulations, Telephone Rules. The Company's network is designed to remain functional in emergency situations without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations as required by Section 54.202(a)(2). The Company can change call routing translations as needed to reroute traffic around damaged facilities within company exchanges. Changing call routing translations will also allow the Company to manage traffic spikes throughout its network, as emergency situations require. The Company does not have an alternate path of egress and therefor is reliant on a single meetpoint for broadband and voice network availability outside the local exchange carrier's boundary.

Specifically, each central office building is supplied with standby generators and battery back-up that enable the central office to keep running until power is restored so long as fuel is available, or until system changes are made to reroute traffic. The Company's central office(s) that have twenty-four (24) hour maintenance coverage or have an automatic start engine alternator can provide a minimum of three (3) hours of battery reserve in accordance with the Alabama Public Service Commission Rules and Regulations, Telephone Rules, Rule T-21(L)(2). All other central office(s), as and if

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<sup>1</sup> Section 54.202(a)(2) requires ETCs that are designated by the Commission to "demonstrate its ability to remain functional in emergency situations, including a demonstration that it has a reasonable amount of back-up power to ensure functionality without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations."



applicable, have a minimum of eight (8) hours of battery reserve in accordance with Rule T-21(L)(2).

National Telephone of Alabama, Inc. currently has no alternate route for E911 services; they have purchased the equipment necessary to implement a temporary emergency reroute through less conventional methods. By the end of the first quarter of 2014 if National Telephone of Alabama, Inc. is unable to route E911 traffic through traditional means during an emergency situation there is a temporary plan in place to ensure E911 functionality. After notifying the Cherokee Police Department, E911 calls will be rerouted to the Cherokee Police Department where members of the police will radio relay the calls to the E911 dispatch facility in Tuscumbia, AL.

**Voice Services Rate Comparability****National Telephone of Alabama, Inc.'s calculation for rate floor certification:**

National Telephone of Alabama, Inc. ("National") certifies that its pricing of fixed voice services is no more than two standard deviations above the applicable national average urban rate floor for voice services. National calculates the average local voice rate using the following formula:

Local Rate + State SLC + State USF + Mandatory EAS

The local rate for National's customers is \$17.44, there is no state SLC or USF and no mandatory EAS. Based on the formula above, National's residential rates are \$17.44, well below the threshold of \$47.48 set by the Wireline Competition Bureau.

**Progress Report**

Because 2015 is the first year of the Company's network improvement plan, there is no previous year for which to report network improvement targets that have not been fulfilled. The Company will report such information for calendar year 2015 as well as progress towards meeting its targets for that year in its progress report submitted in 2016.

**National Telephone of Alabama, Inc.**

**List of New Community Anchor Institutions**

National Telephone of Alabama, Inc. had no new community anchor institutions connected in 2014.



**Operating report for Telecommunications Borrowers**

Included with this filing is the 2014 USDA-RUS borrower form currently filed with RUS. This form is being amended to tie to the audited financial statements, also attached. The amended/corrected form was not available at the time of this filing.

<b>USDA-RUS</b>  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>	<i>This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.</i> <b>BORROWER NAME</b> <p style="text-align: center;">National Telephone of Alabama, Inc.</p> <p style="text-align: center;">(Prepared with Audited Data)</p>	
<i>INSTRUCTIONS-Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.</i>	<b>PERIOD ENDING</b> December, 2014	<b>BORROWER DESIGNATION</b> AL0555

#### CERTIFICATION

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

**ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.**

**DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII**  
*(Check one of the following)*

☒ All of the obligations under the RUS loan documents have been fulfilled in all material respects.

☐ There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

James Garner

3/25/2015

DATE

#### PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents			25. Accounts Payable		
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits		
b. Other Accounts Receivable			29. Current Mat. L/T Debt		
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable			32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities		
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)		
6. Material-Regulated			<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated			36. Funded Debt-RUS Notes		
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)			39. Funded Debt-Other		
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Recquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development			46. Total Long-Term Debt (36 thru 45)		
13. Nonregulated Investments			<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)			50. Total Other Liabilities and Deferred Credits (47 thru 49)		
<b>PLANT, PROPERTY, AND EQUIPMENT</b>			<b>EQUITY</b>		
18. Telecom, Plant-in-Service			51. Cap. Stock Outstand. & Subscribed		
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction			53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation			55. Other Capital		
23. Net Plant (18 thru 21 less 22)			56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins		
			58. Total Equity (51 thru 57)		
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)		

Total Equity =            % of Total Assets

USDA-RUS  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>		BORROWER DESIGNATION  AL0555	
INSTRUCTIONS- See RUS Bulletin 1744-2		PERIOD ENDING  December, 2014	
<b>PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS</b>			
ITEM		PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues			
2. Network Access Services Revenues			
3. Long Distance Network Services Revenues			
4. Carrier Billing and Collection Revenues			
5. Miscellaneous Revenues			
6. Uncollectible Revenues			
7. Net Operating Revenues (1 thru 5 less 6)			
8. Plant Specific Operations Expense			
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)			
10. Depreciation Expense			
11. Amortization Expense			
12. Customer Operations Expense			
13. Corporate Operations Expense			
14. Total Operating Expenses (8 thru 13)			
15. Operating Income or Margins (7 less 14)			
16. Other Operating Income and Expenses			
17. State and Local Taxes			
18. Federal Income Taxes			
19. Other Taxes			
20. Total Operating Taxes (17+18+19)			
21. Net Operating Income or Margins (15+16-20)			
22. Interest on Funded Debt			
23. Interest Expense - Capital Leases			
24. Other Interest Expense			
25. Allowance for Funds Used During Construction			
26. Total Fixed Charges (22+23+24-25)			
27. Nonoperating Net Income			
28. Extraordinary Items			
29. Jurisdictional Differences			
30. Nonregulated Net Income			
31. Total Net Income or Margins (21+27+28+29+30-26)			
32. Total Taxes Based on Income			
33. Retained Earnings or Margins Beginning-of-Year			
34. Miscellaneous Credits Year-to-Date			
35. Dividends Declared (Common)			
36. Dividends Declared (Preferred)			
37. Other Debits Year-to-Date			
38. Transfers to Patronage Capital			
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]			
40. Patronage Capital Beginning-of-Year			
41. Transfers to Patronage Capital			
42. Patronage Capital Credits Retired			
43. Patronage Capital End-of-Year (40+41-42)			
44. Annual Debt Service Payments			
45. Cash Ratio [(14+20-10-11) / 7]			
46. Operating Accrual Ratio [(14+20+26) / 7]			
47. TIER [(31+26) / 26]			
48. DSCR [(31+26+10+11) / 44]			

USDA-RUS

# **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

AL0555

PERIOD ENDED

December, 2014

## **Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION**

EXCHANGE	1. RATES		2. SUBSCRIBERS (ACCESS LINES)			3. ROUTE MILES	
	B-1	R-1	BUSINESS	RESIDENTIAL	TOTAL	TOTAL (including fiber)	FIBER
	(a)	(b)	(a)	(b)	(c)	(a)	(b)
Barton	38.01	17.44	78	262	340	113.00	19.00
Cherokee	38.01	17.44	171	561	732	171.00	15.00
Margerum	38.01	17.44	24	330	354	114.00	3.00
MobileWireless					0		
Route Mileage Outside Exchange Area						0.00	0.00
Total			273	1,153	1,426	398.00	37.00
No. Exchanges	3						



USDA-RUS

# **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

AL0555

PERIOD ENDED

December, 2014

## **Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION**

### **4. BROADBAND SERVICE**

#### **Details on Least Expensive Broadband Service**

EXCHANGE	No. Access Lines with BB available (a)	No Of Broadband Subscribers (b)	Number Of Subscribers (c)	Advertised Download Rate (Kbps) (d)	Advertised Upload Rate (Kbps) (e)	Price Per Month (f)	Standalone/Pckg (f)	Type Of Technology (g)
Barton	0		0	256	256	24.95	Package	DSL
Cherokee	0		1	256	256	24.95	Package	DSL
Margerum	0		1	256	256	24.95	Package	DSL
Total	0							

<b>USDA-RUS</b>  <b>OPERATING REPORT FOR</b> <b>TELECOMMUNICATIONS BORROWERS</b>	<b>BORROWER DESIGNATION</b> AL0555  <b>PERIOD ENDING</b> December, 2014
<b>INSTRUCTIONS- See RUS Bulletin 1744-2</b>	

PART D. SYSTEM DATA				
1. No. Plant Employees	2. No. Other Employees	3. Square Miles Served	4. Access Lines per Square Mile	5. Subscribers per Route Mile
6	2	300	4.75	3.58

PART E. TOLL DATA	
1. Study Area ID Code(s)  a. 250286 b. _____ c. _____ d. _____ e. _____ f. _____ g. _____ h. _____ i. _____ j. _____	2. Types of Toll Settlements (Check one)  Interstate: <input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis  Intrastate: <input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis

PART F. FUNDS INVESTED IN PLANT DURING YEAR	
1. RUS, RTB, & FFB Loan Funds Expended 2. Other Long-Term Loan Funds Expended 3. Funds Expended Under RUS Interim Approval 4. Other Short-Term Loan Funds Expended 5. General Funds Expended (Other than Interim) 6. Salvaged Materials 7. Contribution in Aid to Construction 8. Gross Additions to Telecom. Plant (1 thru 7)	

PART G. INVESTMENTS IN AFFILIATED COMPANIES					
INVESTMENTS	CURRENT YEAR DATA		CUMULATIVE DATA		
	Investment This Year	Income/Loss This Year	Cumulative Investment To Date	Cumulative Income/Loss To Date	Current Balance
	(b)	(c)	(d)	(e)	(f)
1. Investment in Affiliated Companies - Rural Development	0	0	0	0	0
2. Investment in Affiliated Companies - Nonrural Development	0	0	0	0	0

<b>USDA-RUS</b>  <b>OPERATING REPORT FOR</b> <b>TELECOMMUNICATIONS BORROWERS</b>	BORROWER DESIGNATION AL0555  PERIOD ENDING December, 2014
<b>PART H. CURRENT DEPRECIATION RATES</b>	
Are corporation's depreciation rates approved by the regulatory authority with jurisdiction over the provision of telephone services? (Check one) <span style="float: right;"> <input checked="checked" type="checkbox"/> YES    <input type="checkbox"/> NO         </span>	
EQUIPMENT CATEGORY	DEPRECIATION RATE
1. Land and support assets - Motor Vehicles	10.00%
2. Land and support assets - Aircraft	10.00%
3. Land and support assets - Special purpose vehicles	10.00%
4. Land and support assets - Garage and other work equipment	5.00%
5. Land and support assets - Buildings	4.00%
6. Land and support assets - Furniture and Office equipment	7.02%
7. Land and support assets - General purpose computers	10.00%
8. Central Office Switching - Digital	10.00%
9. Central Office Switching - Analog & Electro-mechanical	10.00%
10. Central Office Switching - Operator Systems	10.00%
11. Central Office Transmission - Radio Systems	5.53%
12. Central Office Transmission - Circuit equipment	5.53%
13. Information origination/termination - Station apparatus	100.00%
14. Information origination/termination - Customer premises wiring	100.00%
15. Information origination/termination - Large private branch exchanges	100.00%
16. Information origination/termination - Public telephone terminal equipment	100.00%
17. Information origination/termination - Other terminal equipment	100.00%
18. Cable and wire facilities - Poles	4.00%
19. Cable and wire facilities - Aerial cable - Metal	4.00%
20. Cable and wire facilities - Aerial cable - Fiber	4.00%
21. Cable and wire facilities - Underground cable - Metal	3.00%
22. Cable and wire facilities - Underground cable - Fiber	3.00%
23. Cable and wire facilities - Buried cable - Metal	4.50%
24. Cable and wire facilities - Buried cable - Fiber	4.50%
25. Cable and wire facilities - Conduit systems	3.00%
26. Cable and wire facilities - Other	4.00%

USDA-RUS		BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		AL0555
INSTRUCTIONS – See help in the online application.		PERIOD ENDED December, 2014
PART I – STATEMENT OF CASH FLOWS		
1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)		
CASH FLOWS FROM OPERATING ACTIVITIES		
2. Net Income		
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>		
3. Add: Depreciation		
4. Add: Amortization		
5. Other (Explain)		
<i>Changes in Operating Assets and Liabilities</i>		
6. Decrease/(Increase) in Accounts Receivable		
7. Decrease/(Increase) in Materials and Inventory		
8. Decrease/(Increase) in Prepayments and Deferred Charges		
9. Decrease/(Increase) in Other Current Assets		
10. Increase/(Decrease) in Accounts Payable		
11. Increase/(Decrease) in Advance Billings & Payments		
12. Increase/(Decrease) in Other Current Liabilities		
13. Net Cash Provided/(Used) by Operations		
CASH FLOWS FROM FINANCING ACTIVITIES		
14. Decrease/(Increase) in Notes Receivable		
15. Increase/(Decrease) in Notes Payable		
16. Increase/(Decrease) in Customer Deposits		
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)		
18. Increase/(Decrease) in Other Liabilities & Deferred Credits		
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital		
20. Less: Payment of Dividends		
21. Less: Patronage Capital Credits Retired		
22. Other (Explain)		
23. Net Cash Provided/(Used) by Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
24. Net Capital Expenditures (Property, Plant & Equipment)		
25. Other Long-Term Investments		
26. Other Noncurrent Assets & Jurisdictional Differences		
27. Other (Explain) Change in Accum. Depr. less Depr. Expense		
28. Net Cash Provided/(Used) by Investing Activities		
29. Net Increase/(Decrease) in Cash		
30. Ending Cash		

Revision Date 2010

USDA-RUS	BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	AL0555
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2014
NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	



USDA-RUS  OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION  AL0555
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2014
CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

**NATIONAL TELEPHONE OF ALABAMA, INC.**  
(A wholly-owned subsidiary of Telephone Electronics Corporation)

**FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITORS' REPORTS  
DECEMBER 31, 2014 AND 2013**

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Balance Sheets  
Statements of Stockholder's Equity  
Statements of Operations  
Statements of Cash Flows  
Notes to Financial Statements

### **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### **SCHEDULE OF FINDINGS AND RESPONSES**

# HUFFMAN & SOIGNIER

(A PROFESSIONAL ACCOUNTING CORPORATION)  
CERTIFIED PUBLIC ACCOUNTANTS

Francis I. Huffman, CPA  
David Ray Soignier, CPA, MBA, CGMA

John Herman, CPA  
Lynn Andries, CPA, CGMA  
Esther Atteberry, CPA  
Lori Woodard, MBA, CPA, CGMA, CITP  
Fernando Cordova, CPA

## INDEPENDENT AUDITORS' REPORT

**Board of Directors**  
**National Telephone of Alabama, Inc.**  
**Cherokee, Alabama**

### Report on the Financial Statements

We have audited the accompanying financial statements of National Telephone of Alabama, Inc. (a wholly-owned subsidiary of Telephone Electronics Corporation – the Company), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

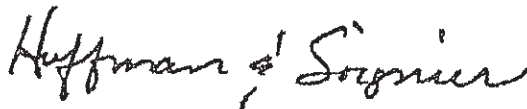
Board of Directors  
National Telephone of Alabama, Inc.  
Cherokee, Alabama

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Report on Other Legal and Regulatory Requirements*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script, reading "Huffman & Signier".

(A Professional Accounting Corporation)  
March 31, 2014



**NATIONAL TELEPHONE OF ALABAMA, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)		
Accounts receivable		
Customers, less allowance for doubtful accounts		
of [REDACTED] and [REDACTED] respectively		
Toll settlements, less allowance for doubtful accounts		
of [REDACTED] and [REDACTED] respectively		
Other		
Materials and supplies		
Deferred tax assets (Note 8)		
Prepayments		
<b>NONCURRENT ASSETS</b>		
Investments (Note 4)		
Regulatory asset		
Unamortized debt issuance costs		
Other noncurrent assets		
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5)</b>		
Regulated communications, including goodwill		
Nonregulated communications		
 Accumulated depreciation		
<b>TOTAL ASSETS</b>		

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

**Liabilities and Stockholder's Equity**

	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt (Note 6)		
Accounts payable		
Trade		
Affiliates (Note 2)		
Other		
Advance billings and customer deposits		
Accrued taxes		
Other accrued liabilities		
<b>LONG-TERM DEBT</b> (Note 6)		
<b>DEFERRED TAX LIABILITIES</b> (Note 8)		
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 11)		
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value <span style="background-color: black; color: black;">    </span> per		
share; 25,000 shares authorized,		
issued and outstanding		
Discount on common stock		
Paid-in capital		
Retained earnings		
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>		

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.  
STATEMENTS OF STOCKHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

<u>Common Shares Outstanding</u>		<u>Total Stockholder's Equity</u>	<u>Common Stock(*)</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>
25,000	<b>BALANCES,</b> December 31, 2012				
<u>-</u>	Net loss				
25,000	<b>BALANCES,</b> December 31, 2013				
<u>-</u>	Net loss				
<u>-</u>	Dividends on common stock				
<u>25,000</u>	<b>BALANCES,</b> December 31, 2014				

(\*) Common stock is net of discount.

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>REGULATED COMMUNICATIONS OPERATIONS</u></b>		
<b>REVENUES</b>		
Local service		
Network access and miscellaneous (Note 1)		
<b>OPERATING EXPENSES</b>		
Plant operations		
Depreciation (Note 5)		
Customer and corporate operations		
Other operating		
Operating loss		
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest expense and related items		
Loss on sale of assets		
Other income - net		
Loss before income taxes		
<b>INCOME TAX BENEFIT (Note 8)</b>		
Loss from regulated communications operations		

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.  
STATEMENTS OF OPERATIONS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>NONREGULATED COMMUNICATIONS OPERATIONS</u></b>		
<b>REVENUES</b> (Note 1)		
<b>COST OF REVENUES</b>		
Gross profit		
<b>OPERATING EXPENSES</b>		
General operating expenses		
Depreciation (Note 5)		
Operating income		
<b>NONOPERATING INCOME (EXPENSE)</b>		
Income before income taxes		
<b>INCOME TAX EXPENSE</b> (Note 8)		
Income from nonregulated communications operations		
Net loss		

The accompanying notes are an integral part of these financial statements.



**NATIONAL TELEPHONE OF ALABAMA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES:</b>		
Net loss		
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation (Note 5)		
Provision for losses on Accounts receivable - Customers		
Provision for losses on Accounts receivable - Toll settlements		
Loss on sale of regulated communications plant		
Provision for inventory obsolescence		
Provision for deferred income taxes (Note 8)		
Changes in assets and liabilities		
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment		
Proceeds from sale of regulated communications plant		
Net cash used for investing activities		
<b>FINANCING ACTIVITIES:</b>		
Payments and retirements of long-term debt		
Borrowings under the BIP long-term debt agreement (Note 6)		
BIP grant proceeds (Note 6)		
Dividends to common stockholder		
Net cash used for financing activities		
<b>Net increase (decrease) in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Changes in assets and liabilities:</b>		
Accounts receivable		
Customers		
Toll Settlements		
Other		
Materials and supplies		
Prepayments		
Unamortized debt issuance costs		
Other noncurrent assets		
Accounts payable		
Trade		
Affiliates (Note 2)		
Other		
Advance billings and customer deposits		
Accrued taxes		
Other accrued liabilities		
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
<b>Cash paid during the year for:</b>		
Interest		
Income taxes		
 <b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Retirements of regulated communications plant at original cost		

The accompanying notes are an integral part of these financial statements.

**NATIONAL TELEPHONE OF ALABAMA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

National Telephone of Alabama, Inc. (the Company) is a wholly-owned subsidiary of Telephone Electronics Corporation (TEC).

**Nature of Operations**

The Company's principal line of business is the provision of a broad range of communications services to business and residential customers located primarily in northwestern Alabama. The Company views, manages and evaluates the results of its operations from the various communications services as one company, and therefore, has identified one reporting segment as it relates to providing segment information.

**Regulatory Accounting**

The Company follows the accounting for regulated enterprises prescribed by Accounting Standards Codification (ASC) 980, "*Regulated Operations*", including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the Alabama Public Service Commission (APSC). The standard system of accounts for the Company is the FCC's Part 32 Uniform System of Accounts. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment; as such, amounts are recovered through rates authorized by regulatory authorities. Accordingly, ASC 980 requires the Company to depreciate regulated communications plant over the useful lives approved by regulators, which could be different than the estimated useful lives that would otherwise be determined by management. Criteria that would give rise to the discontinuance of accounting in accordance with ASC 980 include increasing competition which may restrict the ability of the Company to establish prices that allow it to recover specific costs and significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the criteria to determine whether the continued application of ASC 980 is appropriate.

The Company is subject to reviews and audits by regulatory agencies. The National Exchange Carrier Association (NECA) Member Services Division performed a review of February 2014 data for Special Access revenue, DSL revenue, and cable and wire facility investments during 2014, and no adjustments were required.

### Revenue Recognition

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete and collection is reasonably assured. The Company's revenues are primarily derived from: local calling services, interstate and intrastate access revenues (including pooled revenues), Connect America Fund (CAF) support, Universal Service Fund (USF) support, Internet and data services, long distance services, and other miscellaneous services.

The Company markets competitive service bundles which may include multiple deliverables. The Company offers an unlimited statewide calling bundle and an unlimited nationwide calling bundle that consist of voice services, calling features and long distance. Revenues are allocated to the separate units based on their estimated fair values.

Substantially all recurring non-usage sensitive service revenues, including service bundles, are billed in advance and deferred until earned. The Company records revenue billed in advance as advance billings. Non-recurring and usage sensitive revenues are billed in arrears and recognized when earned.

Network access and miscellaneous revenue is derived from several sources, including USF support, CAF support, interstate and intrastate access revenues, as well as intrastate long distance revenues, and is detailed as follows:

	<u>2014</u>	<u>2013</u>
USF support		
CAF support		
Interstate/intrastate access		
Intrastate long distance		
Directory services		
Miscellaneous		
Uncollectible		

Revenue for interstate access services is received through tariffed access charges filed by NECA with the FCC on behalf of the NECA member companies. These access charges are billed by the Company to interstate interexchange carriers and reported to NECA to be pooled with like-revenues from all NECA member companies. A portion of the pooled access charge revenues are distributed to the Company based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service. Distributions from these pools can change relative to changes made to expenses, plant investment, or rate of return. Intrastate revenue is derived from tariffed access charges as filed with the APSC. These access charges are billed to the interexchange carriers and payments are retained by the Company. The



Company recorded income of [REDACTED] during 2014 and expense of [REDACTED] during 2013 related to adjustments of prior years intrastate and interstate access costs, which are reflected within "Other income - net" on the accompanying statements of operations. Estimated interstate revenues are initially recorded based on cost studies which require final approval by NECA and the FCC. It is believed that the recorded amounts in 2014 approximate the final amounts which will be determined when pool cost studies are finalized; however, these estimates are subject to adjustment in future accounting periods as additional operational information becomes available. The Company recognized a reduction in revenue in the amount of [REDACTED] during 2014 as a result of the 2013 pool being finalized. During 2013, the Company recognized additional revenue in the amount of [REDACTED] as a result of the 2012 pool being finalized.

The FCC has issued a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order"). The Reform Order contains comprehensive rules reforming all forms of intercarrier compensation and implements a new support mechanism for the deployment of broadband services. Generally, the intercarrier compensation reform outlines a path toward a "bill & keep" method where there is no compensation for termination of traffic received from another carrier. The transition to this method includes numerous steps depending on the type of traffic exchanged. As required by the Reform Order, effective July 1, 2013, the Company made the final reduction to bring its intrastate access rates to parity with its interstate access rates. In July 2014, the Company began reducing its terminating access and reciprocal compensation rates over 7 years to "bill & keep". The Company receives CAF support, which is a support mechanism designed to replace some of the Company's lost access revenue during the transition period outlined in the Reform Order.

The High Cost Loop Fund (HCL) is a subcomponent of the USF and is available to rural incumbent carriers to support the high cost of their operations in rural markets. The HCL support is based upon the Company's average cost per loop compared to the national average cost per loop. The Company received HCL support of [REDACTED] and [REDACTED] during 2014 and 2013, respectively (see Note 11).

The Company recognizes directory services revenue over the subscription period of the corresponding directory. Directory services are normally billed under contract.





Nonregulated communications revenues are derived primarily from Internet and data services, long distance services, inside wire maintenance (ISW Maintenance) and security monitoring services, and are detailed as follows:

	<u>2014</u>	<u>2013</u>
Internet and data services		
Interstate/international long distance		
ISW Maintenance		
Security monitoring services		
Miscellaneous		
Uncollectible		

Receivables for network access revenues are reflected (net of payables) as "Accounts receivable - Toll settlements" for 2014 and 2013 on the accompanying balance sheets.

### **Property, Plant and Depreciation**

Regulated communications plant is stated substantially at original cost of construction and includes indirect costs consisting of payroll taxes, pensions and other fringe benefits, and supervision salaries. Net composite interest charges on borrowed and equity funds used to finance construction are capitalized in the same manner as construction labor and material costs. Interest is capitalized to the extent allowed by regulatory agencies. For the years ended December 31, 2014 and 2013, the Company capitalized interest in the amount of  and  respectively.

Generally, for regulated communications plant, normal asset retirements are charged against accumulated depreciation along with the cost of removal, less salvage, with no gain or loss recognized. The unrecovered costs of regulated communications plant removed substantially in advance of the expected service life of the plant (extraordinary retirements) are deferred and amortized over a period of years specified by the appropriate regulatory commission. There were no extraordinary retirement balances as of December 31, 2014 and 2013.

Depreciation of regulated communications plant is provided on the straight-line method, using class and overall composite rates subject to FCC guidelines.

When nonregulated communications plant is sold or retired, the original cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation on nonregulated communications plant is determined using the straight-line method for financial reporting purposes.

Expenditures for improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs to all property, plant and equipment, as well as replacement of minor items, are charged to maintenance expense as incurred.

### **Materials and Supplies**

The Company maintains an inventory of cable, modems, and equipment repair parts, as well as maintaining an inventory for resale of telephones, security system components, tablets, and computer accessories. Materials and supplies are stated at the lower of cost or market value. Cost is determined using the moving average method of valuation. The Company reviews inventory on an annual basis for obsolescence and records charges based upon various factors, including the age of the inventory and technological advances. The Company has provided a reserve for obsolete inventory of [REDACTED] and [REDACTED] at December 31, 2014, and 2013, respectively.

### **Income Taxes**

The Company is included in the consolidated federal income tax return of TEC. For financial reporting purposes, income taxes are generally calculated and settled as though the Company had prepared a separate tax return except that the statutory income tax rate for TEC is applied.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and their respective tax bases and operating loss and tax credit carryforwards.

To the extent current year income tax accruals are paid or offset by other transactions with TEC, they are considered as cash paid for income taxes.

Pursuant to ASC 980, the Company had recorded a regulatory asset and a corresponding increase in net deferred income taxes payable relative to the deficit deferred income taxes and the regulatory impact thereof. The regulatory asset and the related tax impact were being amortized using the straight-line method as an increase to income tax expense. The regulatory asset and the related tax impact were fully amortized during 2014.

Interest and penalties related to income tax matters are recognized in Nonoperating Income (Expense). During 2014 and 2013, the Company had no significant amounts recorded for interest and penalties.

The Company is subject to income tax examinations by the IRS and the Alabama Department of Revenue; however, there are currently no examinations in progress for any tax periods.

Management believes the Company is no longer subject to income tax examinations for years prior to 2011.

### **Recently Issued Accounting Pronouncements**

During 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2014-01 through ASU 2014-18. Except for ASU 2014-09, which is discussed below, these ASUs primarily provide technical corrections to existing guidance, relate to specialized industries or relate to accounting issues that are not applicable to the Company. Accordingly, these ASUs will not have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is designed to clarify the principles used to recognize revenue for entities. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance becomes effective for the Company on December 31, 2018 and allows for two methods of adoption: (1) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (2) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal year 2018 opening retained earnings balance. The Company is evaluating the potential impact of this pronouncement.

### **Cash, Cash Equivalents and Cash Investments**

The Company considers highly liquid investments (including the Company's interest in a consolidated cash management account maintained by a subsidiary of TEC (see Note 2)) with an original maturity of three months or less to be cash equivalents. Certificates of deposit with an original maturity greater than three months, but less than or equal to one year are considered to be cash investments.

### **Disclosures About Concentrations**

The Company is subject to credit risk primarily through cash and cash equivalent balances and trade receivables.

The Company's cash and cash equivalents are primarily invested in a master cash management pool with other TEC affiliates (see Note 2). The overall pooled cash balances are currently invested in mutual funds, consisting primarily of U.S. government agency and treasury securities, as well as overnight repurchase agreements. The risk of loss on such investments is remote.



The Company believes that the concentration of credit risk with respect to trade receivables is principally related to receivables due from other interexchange carriers for network access revenues, which are reflected within "Accounts receivable – Toll settlements", and the amounts due from underlying customers for local, internet and data services which are reflected in "Accounts receivable – Customers" on the accompanying balance sheets. Overall, the Company believes that such credit risk is minimized because charges for local, internet and data services are typically billed in advance of the actual communications services being rendered, and charges for toll services provided by long distance carriers other than the Company and not collected from the Company's underlying customers are recoverable from the associated long distance carriers.

#### **Accounts Receivable and Allowance for Doubtful Accounts**

The Company extends credit to its business and residential customers generally on an unsecured basis. Service interruption is the primary vehicle for controlling losses. Trade and toll settlement receivables are accounted for at cost less the reserve for uncollectible accounts. The allowance for doubtful accounts on trade receivables is computed by management and is the Company's best estimate for the amount of probable losses on the Company's existing accounts receivable. The allowance for doubtful accounts is calculated excluding the long distance portion of the receivable, for carriers other than the Company, due to the fact that this portion is recoverable in full from the associated long distance carrier. The allowance for doubtful accounts for toll settlements is calculated using the specific identification method whereby management assesses a carrier's ability to meet its current financial obligations to the Company. Management's assessment includes the overall length of time the receivable has been past due, historical collection experience, and other factors.

Customers are typically billed on the 1<sup>st</sup> of every month and the accounts are considered delinquent if not paid in full by the 15<sup>th</sup> of the month. Late fees are billed at the tariffed rate filed with the APSC and are recorded as income when billed. Customer accounts are typically disconnected if payment is not received by the 25<sup>th</sup> of the respective month. Normally, uncollectible trade receivables are written off against the allowance for doubtful accounts sixty days after the date of disconnection. Subsequent recoveries of customer receivables are recognized as income in the period such amounts are actually received.

#### **Advertising**

Costs incurred for producing and communicating advertising are expensed as incurred.

**Taxes Collected from Customers and Remitted to Governmental Authorities**

The Company records taxes billed to its customers and remitted to governmental authorities on a net basis within a liability account.

**Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the earnings of the Company in the period in which they become known.

**Goodwill**

Goodwill consists of the difference between the purchase price incurred in acquisitions using the purchase method of accounting and the fair value of net assets acquired. In accordance with FCC regulatory accounting requirements, goodwill is included within "Regulated communications" property, plant and equipment on the accompanying balance sheets. In accordance with ASC 350, goodwill is no longer amortized, but instead is assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate potential impairment. The Company may first assess qualitative factors to determine whether it is more-likely-than-not that its carrying value exceeds its fair value. If this assessment indicates that it is more-likely-than-not that the carrying value exceeds its fair value, a two-step quantitative assessment will be completed. During the quantitative assessment, management would consider a number of factors, including operating results, business plans, and anticipated future cash flows.

As required under ASC 350, the Company completed its qualitative assessment of goodwill as of December 31, 2014, and concluded it is more likely than not that its Goodwill was not impaired.

**Investments**

Investments in nonconsolidated companies in which the Company has a 20% to 50% interest or otherwise has the ability to exercise significant influence over the operating and financial policies are accounted for using the equity method. Investments in which there is no significant influence (normally less than a 20% ownership) are accounted for under the cost method of accounting.



To determine if an impairment of an investment exists, the Company monitors and evaluates the financial performance of the business in which it invests and compares the carrying value of the investee to quoted market prices (if available), or the fair values of similar investments, which in certain instances, is based on traditional valuation models utilizing multiples of cash flows. When circumstances indicate that a decline in the fair value of the investment has occurred and the decline is other than temporary, the Company records the decline in value as a realized impairment loss and a reduction in the cost of the investment.

### **Unamortized Debt Issuance Costs**


Debt issuance costs are amortized over the term of the related debt and are recorded as interest expense.

### **Subsequent Events**

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 31, 2015, which is the date the financial statements were available to be issued.

## **2. AFFILIATED TRANSACTIONS**


In the normal course of operations, the Company receives and provides certain services or engages in transactions with TEC and/or certain subsidiaries of TEC. The significant services and transactions with affiliated companies not discussed elsewhere are summarized as follows:





	<u>2014</u>	<u>2013</u>
Amounts incurred for assistance with billing and related services provided by subsidiaries of TEC		
Amounts incurred for executive, managerial, technical, accounting, insurance, marketing, legal, service mark licensing, regulatory matters, revenue assurance, equipment purchases and other miscellaneous services provided by TEC		
Amounts incurred for network transmission, network access, equipment and network maintenance, Internet bandwidth, equipment purchases and other miscellaneous services provided by subsidiaries of TEC		
Purchase of regulated communications property, plant, and equipment from another telephone subsidiary of TEC		





The net balances due (to) from affiliated companies are reflected in the financial statements as follows:

	<u>2014</u>	<u>2013</u>
Accounts payable – Affiliates		
Amounts included in:		
Accounts payable - Trade		

The following is a detail of the composition of the net balance due (to) from affiliates:

	<u>2014</u>	<u>2013</u>
TEC		
LecNet, Inc.		
TEC Services, Inc.		
TEC Services of Louisiana, Inc.		
West Tennessee Telephone Company, Inc.		
ComNet, Inc.		
TEC of Jackson, Inc.		

In addition to the above transactions, the Company made federal tax payments to TEC of  and  during 2014 and 2013, respectively. Further, amounts due to TEC for federal income taxes, which are included in the TEC amounts above, amounted to  and  at December 31, 2014 and 2013, respectively.

The Company participates in a master cash management pool with other TEC affiliates administered by Regions Bank. The Company's main operating and payroll accounts draw from and are funded by an investment account maintained by another subsidiary of TEC. The Company receives an allocation of earnings, if any, and fees on the investment account on a monthly basis. The Company's share of the investment account is reflected in "Cash and cash equivalents" on the accompanying balance sheets and amounted to  for 2014, of which  has been committed to fund outstanding checks. The Company's share of the investment account for 2013 was  of which  was committed to fund outstanding checks.

### 3. RELATED PARTY TRANSACTIONS

During 2014 and 2013, the Company engaged in transactions with entities in which there is an ownership or involvement by an officer and director. The significant transactions are summarized as follows:

	<u>2014</u>	<u>2013</u>
Amounts incurred for engineering and other related services provided by a company owned or controlled by an officer and director of the Company		

Amounts payable to related parties at December 31, 2014 and 2013 were \$973 and \$2,681, respectively. These amounts are reflected in "Accounts payable - Trade" on the accompanying balance sheets.

### 4. INVESTMENTS

Investments consist of:

	<u>2014</u>	<u>2013</u>
Rural Telephone Finance Cooperative (RTFC)		

The Company's investment in RTFC is carried at historical cost due to no readily determinable fair market values for such instruments being available. The RTFC investment is comprised of patronage certificates that represent ownership in RTFC. This investment is being redeemed on an ongoing basis.

## 5. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment and their respective depreciation rates are as follows:

	<u>Annual Rate Range</u>	<u>Asset Balance</u>
		<u>2014</u> <u>2013</u>
<b>Regulated communications, including goodwill</b>		
Goodwill	-	
Land	-	
Buildings	4%	
Vehicles and other work equipment	5% - 10%	
Furniture and office equipment	10%	
Central office equipment	10%	
Circuit equipment	6% - 10%	
Poles	4%	
Cable, lines and wire	4% - 5%	
Other	-	
Total regulated communications plant in service		
Regulated communications plant under construction		
Total regulated communications plant		
<b>Nonregulated communications</b>	33%	

Depreciation expense for property, plant and equipment amounted to [REDACTED] and [REDACTED] in 2014 and 2013, respectively. The composite depreciation rate for regulated communications property, plant and equipment was 4.26% for 2014 and 4.36% for 2013.

Substantially all of the Company's regulated and nonregulated communications property, plant and equipment is pledged to secure long-term debt.

## 6. LONG-TERM DEBT AND LINE OF CREDIT INFORMATION

Long-term debt consists of:

	<u>2014</u>	<u>2013</u>
5% mortgage notes payable to Rural Utilities Service (RUS), secured by a first mortgage on substantially all assets, due in monthly installments of approximately \$13,307, including interest, maturing in 2020		
Mortgage note payable to RUS, also secured by a first mortgage on substantially all assets, due in monthly installments of approximately \$2,250, including interest, maturing in 2031		
Current maturities		



Approximate aggregate annual principal payments applicable to long-term debt are as follows:

2015	
2016	
2017	
2018	
2019	
Thereafter	
Total long-term debt	

The Company has been awarded a grant in the amount of [REDACTED] and loan in the amount of [REDACTED] from RUS under the Broadband Initiatives Program (BIP). The BIP grant and loan are for the purpose of constructing a broadband infrastructure project to provide broadband access to unserved and underserved areas within the Company's service area. The BIP grant is subject to federal compliance regulations usually associated with federal grants as well as certain conditions that are unique to the grant. The BIP loan is being amortized on a monthly basis in an amount that will pay all principal and interest by the maturity date of the loan agreement (September 2031). The BIP loan interest rate is set based upon the advance date using the "Cost-of-Money Interest Rate" as published by the Secretary of the Treasury. The weighted average interest rate on the BIP loan was approximately 2.65% as of December 31, 2014 and 2013, respectively. The company received [REDACTED] in BIP loan funds and \$18,703 in BIP grant funds during 2013. The majority of the BIP project was completed and related assets were placed in service during 2012 and the remainder was completed in 2013. The Company requested a rescission of the remaining unadvanced BIP loan funds of [REDACTED] and BIP grant funds of [REDACTED] which was approved by RUS on August 12, 2014, and the BIP award is now closed.

In addition, the Company is restricted from making advances, loans or extending credit to any stockholder or affiliated company without the consent of the noteholder and is required to maintain a certain financial ratio. The Company did not maintain the required financial ratio for 2013 and 2014. The Company prepared the corrective action plan required by the loan agreement for 2013 and is in the process of updating the plan for 2014. Further, as of December 31, 2014, approximately \$483,356 of the Company's retained earnings were available for the payment of cash dividends under the most restrictive provisions of these agreements.

A loan agreement of TEC with RTFC contains certain restrictions which pertain to the Company, including restrictions on incurring additional indebtedness and transactions involving the Company's capital stock.



## 7. LEASES

The Company incurs pole rent expense under the terms of cancellable joint use pole rental agreements. Pole rent expense incurred under these agreements, which is reflected in "Plant operations" on the accompanying statements of operations, amounted to [REDACTED] and [REDACTED] for 2014 and 2013, respectively. Under the terms of the joint use pole rental agreements the Company recorded pole rental revenue in the amount of [REDACTED] during 2014 and [REDACTED] during 2013, which is included in "Network access and miscellaneous" on the accompanying statements of operations.

The Company also leases land and other items under cancellable operating leases. Rent expense under these agreements amounted to [REDACTED] for both 2014 and 2013.

## 8. INCOME TAXES

Income taxes were charged to operations as follows:

		<u>Regulated Communications Operations</u>	<u>Nonregulated Communications Operations</u>	<u>Total</u>
	2014			
Current				
Federal				
State				
Deferred				
Federal				
State				
	2013			
Current				
Federal				
State				
Deferred				
Federal				
State				

The following is a summary of the items which cause the effective tax rate based on pretax income to differ from the statutory federal income tax rate:

	<u>2014</u>		<u>2013</u>
	<u>Amount</u>	<u>% of Pretax Income</u>	<u>Amount</u>
Computed "expected" federal income tax benefit			
State income tax expense, net of federal income tax effect			
Amortization of regulatory asset - net			
Other - net			
Actual income tax expense (benefit)			

The tax effects of temporary differences that gave rise to the deferred tax assets and deferred tax liabilities, at December 31, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Deferred federal income tax (for calculation of deferred state income taxes)		
Deferred state income tax (for calculation of deferred federal income taxes)		
Accounts receivable allowance		
Regulatory asset		
Property, plant and equipment, primarily due to depreciation differences		
Other - net		

Deferred taxes are included in the financial statements as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets - current		
Deferred tax liabilities - noncurrent		

## 9. EMPLOYEE BENEFIT PLANS

### Employee Stock Ownership Plan (ESOP)

TEC sponsors an ESOP that covers substantially all employees with one year or more of service with a participating company. Participating companies include TEC and its subsidiaries (including the Company). This plan is funded by participating company contributions determined annually by TEC's Board of Directors. The Company contributed [REDACTED] during 2014 and [REDACTED] during 2013 to the ESOP, which is reflected as compensation expense.

**Employee 401(k) Plan**

The Company is included in the Telephone Electronics Corporation and Associated Companies 401(k) Plan (the 401(k) Plan). Participating employees may contribute a portion of their compensation to the 401(k) Plan, and the Company, at its discretion, makes matching contributions based on the employee's contribution. Participation in the 401(k) Plan is open to employees who have attained the age of 21 and completed one year of service (as defined under the 401(k) Plan). Currently, the Company makes safe harbor matching contributions of 100% of the first 3% of employee compensation contributed to the 401(k) Plan and 50% of the next 2% of employee compensation contributed to the 401(k) Plan. Total matching contributions recognized by the Company were [REDACTED] and [REDACTED] for 2014 and 2013, respectively.

**10. COMMITMENTS AND CONTINGENCIES**

Construction expenditures and other investments in property, plant and equipment are currently estimated to be [REDACTED] during 2015; however, this estimate may be revised for changes in funding availability.

**11. CONCENTRATIONS, RISKS AND UNCERTAINTIES**

The Company's business is conducted primarily in northwestern Alabama and, accordingly, is dependent upon the general economic conditions of this region. Although the Company's performance is affected by the general conditions of the economy, not all of its services are equally affected. There can be no assurance that future economic conditions in this region will not impact demand for services, which may impact the Company's business, operating revenues and cash flows.

The Company also faces certain inherent risks that its service area can experience significant weather events which have the potential to physically damage its overall telecommunications infrastructure. Such disruptions may cause interruptions in service or reduced capacity for customers on a short-term basis and cause the Company to incur certain non-recurring expenses which may or may not be recoverable under the provisions of insurance policies.

The Company faces potential competition from wireless carriers, competitive local exchange carriers and other providers of telecommunications and information services. Certain competitors benefit from financial, personnel, marketing and other resources that are significantly greater than the Company's available resources. These competitors may provide services competitive with products and services the Company provides or intends to provide. However, as a "rural telephone company", the Company is currently exempt from the obligation



to lease network elements in an unbundled manner to competitive local exchange carriers and to comply with certain other requirements applicable to larger incumbent local exchange carriers. This relief may be lost if certain actions are taken by competitors or regulatory bodies.

Approximately 50% and 51% of the Company's total combined revenues for the years ended December 31, 2014 and 2013 were derived from network access charges, USF support and CAF support. The interstate network access rates that the Company can charge are regulated by the FCC, and the intrastate network access rates are regulated by the APSC. Those rates may change from time to time. The Company receives HCL support which supports the high cost of its operations in rural markets. The HCL support is based upon the Company's average cost per loop compared to the national average cost per loop.

In early 2010, the FCC released its new National Broadband Plan (the Broadband Plan). The Broadband Plan is the FCC's framework to develop a comprehensive plan over the next decade for broadband deployment, intercarrier compensation reform and regulatory reform initiatives, such as reformation of the USF HCL. Subsequently, the FCC issued the Reform Order, which addressed both intercarrier compensation as well as USF support issues. The Reform Order was accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of follow up proposals. The Reform Order is also the subject of numerous Petitions for Reconsideration, which ask the FCC to reconsider portions of its decision, and is the subject of judicial appeals. Future judicial challenges to the Reform Order are also possible, which could alter or delay the FCC's proposed changes. The Company cannot predict the outcome of any future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on the Company; however, the Reform Order may have a negative impact on the Company's revenues.

The Reform Order establishes a \$2 billion fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive support for the deployment of wireline broadband facilities principally through the CAF rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order established benchmarks that limit certain reimbursable capital and operating expenses for determining HCL support; reduces HCL support on a dollar-for-dollar basis where a carrier's local rates are set below a specified urban local rate floor; phases out Safety Net Additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a \$250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide the Company with the same level of support over time that the Company currently receives.

# HUFFMAN & SOIGNIER

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CERTIFIED PUBLIC ACCOUNTANTS

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Fernando Cordova, CPA

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Board of Directors**  
**National Telephone of Alabama, Inc.**  
**Cherokee, Alabama**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of National Telephone of Alabama, Inc. (the Company) which comprise the balance sheet as of December 31, 2014, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during



**Board of Directors**  
**National Telephone of Alabama, Inc.**  
***Government Auditing Standards Report***  
**Page 2 of 2**

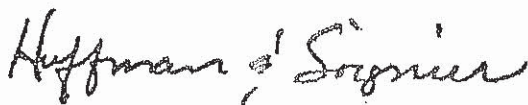
our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 05-02 and 13-01.

The Company's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



(A Professional Accounting Corporation)  
March 31, 2015

National Telephone of Alabama, Inc.  
Schedule of Findings and Responses  
December 31, 2014

05-02 Compliance with RUS Rules

**Finding:**

The Rural Utilities Service requires that Continuing Property Records (CPR) be established and maintained for inside and outside plant assets. As of December 31, 2014, the Company still has not established comprehensive CPR for outside plant assets.

Establishment and maintenance of comprehensive CPR for outside plant assets will assist management in its duty for accountability of assets and minimize the potential for error in recording retirements and other changes in outside plant assets.

**Recommendation:**

The Company should establish and maintain CPR for its outside plant assets as required by the Rural Utilities Service.

**Management's Corrective Action Plan:**

The Company has begun the lengthy process of converting its existing electronic CAD-based outside plant mapping system to CHR Solutions Oasis FM Engineering Module (Oasis FM). The Company believes the enhanced functionality present in Oasis FM will facilitate the ultimate preparation of outside plant CPRs in the future.

13-01 Compliance with Loan Covenant

**Finding:**

The Company's loan/grant agreement under the RUS Broadband loan/grant program requires the Company to maintain a Times Interest Earned Ratio (TIER) of 1.00 or greater. The Company's TIER for 2014 was .26.

**Recommendation:**

We recommend the Company establish and implement such corrective action that may be required to allow it to maintain a TIER of at least 1.00.

**Management's Corrective Action Plan:**

The Company is in the process of reviewing its 2015 budget in order to prepare the corrective action plan required by Section 5.9 of the Broadband Initiatives Program Loan/Grant and Security Agreement. The Company will submit the plan within the required time frame of 30 days from submitting the audited financial statements as stated in Section 5.9.

# HUFFMAN & SOIGNIER

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
National Telephone of Alabama, Inc.  
Cherokee, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of National Telephone of Alabama, Inc. (the Company) which comprise the balance sheet as of December 31, 2014, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during



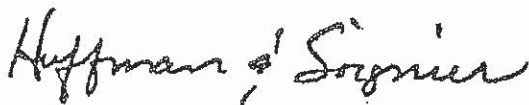
our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 05-02 and 13-01.

The Company's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Huffman & Signier".

(A Professional Accounting Corporation)  
March 31, 2015



National Telephone of Alabama, Inc.  
Schedule of Findings and Responses  
December 31, 2014

05-02 Compliance with RUS Rules

Finding:

The Rural Utilities Service requires that Continuing Property Records (CPR) be established and maintained for inside and outside plant assets. As of December 31, 2014, the Company still has not established comprehensive CPR for outside plant assets.

Establishment and maintenance of comprehensive CPR for outside plant assets will assist management in its duty for accountability of assets and minimize the potential for error in recording retirements and other changes in outside plant assets.

Recommendation:

The Company should establish and maintain CPR for its outside plant assets as required by the Rural Utilities Service.

Management's Corrective Action Plan:

The Company has begun the lengthy process of converting its existing electronic CAD-based outside plant mapping system to CHR Solutions Oasis FM Engineering Module (Oasis FM). The Company believes the enhanced functionality present in Oasis FM will facilitate the ultimate preparation of outside plant CPRs in the future.

13-01 Compliance with Loan Covenant

Finding:

The Company's loan/grant agreement under the RUS Broadband loan/grant program requires the Company to maintain a Times Interest Earned Ratio (TIER) of 1.00 or greater. The Company's TIER for 2014 was .26.

Recommendation:

We recommend the Company establish and implement such corrective action that may be required to allow it to maintain a TIER of at least 1.00.

**Management's Corrective Action Plan:**

The Company is in the process of reviewing its 2015 budget in order to prepare the corrective action plan required by Section 5.9 of the Broadband Initiatives Program Loan/Grant and Security Agreement. The Company will submit the plan within the required time frame of 30 days from submitting the audited financial statements as stated in Section 5.9.

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## INDEPENDENT AUDITORS' MANAGEMENT LETTER FOR TELECOMMUNICATIONS BORROWERS

**Board of Directors  
National Telephone of Alabama, Inc.**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Telephone of Alabama, Inc. (the Company or the Borrower) which comprise the balance sheet as of December 31, 2014 and the related statements of income, changes in stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and responses related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions or conditions of their loan, grant and security agreements as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, § 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily towards obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. Except as noted, in connection with our audit, we noted no matters regarding the Company's accounting and records to indicate that the Company did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material and overhead costs, and the distribution of those costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

*The Company does not maintain continuing property records with respect to outside plant assets.*

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval for the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;

Maintain adequate control over materials and supplies;

The Borrower has obtained written approval of the RUS to enter into any contract, agreement or lease with an affiliate as defined in §1773.33 (e)(2)(i);

*The Borrower had no contracts with affiliates that would require approval of RUS during the year ended December 31, 2014.*

The Borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2014, which is in agreement with the Company's audited records in all material respects.

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in accounting principles generally accepted in the United States of America;

Comply with the requirements for the detailed schedule of investments; and,

*The Company has no investments which would require presentation pursuant to 7 CFR 1773.33 (i).*

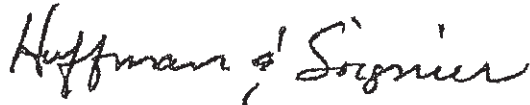
Comply with the TIER requirement included in its loan/grant documents dated September 7, 2010;

*The Company did not comply with the requirement that it maintain a TIER of 1.00 or greater during the year ended December 31, 2014.*



Board of Directors  
National Telephone of Alabama, Inc.  
Independent Auditors' Management Letter  
For Telecommunications Borrowers  
March 31, 2015  
Page 3 of 3

This report is intended solely for the information and use of the board of directors, management, and the RUS and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Huffman & Signier".

(A Professional Accounting Corporation)  
March 31, 2015